

Message Text

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C O N F I D E N T I A L STATE 162867

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FOLLOWING REPEAT STATE 162867 ACTION USDEL SECRETARY INFO BRASILIA

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QUOTE

C O N F I D E N T I A L STATE 162867 TOSEC 060065

EXDIS

E.O. 11652: GDS

TAGS: EAID, USEGJC

SUBJECT: EMERGENCY AID TO EGYPT

BRASILIA: PASS UNDER SECRETARY ROBINSON

FOR SAUNDERS WITH SECRETARY'S PARTY

SUMMARY: IBRD VICE PRESIDENT BENJENK AND STAFF BRIEFED

EMBASSY REPS OF POTENTIAL NON-ARAB DONORS OF EMERGENCY AID

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TO EGYPT THURSDAY ON BANK'S ANALYSIS OF EGYPT'S NEEDS AND

EGYPT'S COMMITMENTS TO BANK ON ECONOMIC REFORM MEASURES. BANK DATA AND PRESENTATION FULLY SUPPORTED USG REPRESENTATIONS THAT EGYPT NEEDS APPROXIMATELY \$800 MILLION FROM NON-ARAB SOURCES FOR FINANCING OF IMPORTS THIS YEAR IN ADDITION TO \$1.1 BILLION ARAB CASH AID ALREADY COMMITTED. LATTER NEEDED LARGELY TO START PAYING FOREIGN COMMERCIAL BANK DEBTS. REPORTS FROM MEETING SHOULD ENCOURAGE EARLY POSITIVE ACTION BY EC COUNTRIES AND JAPAN TO PROVIDE REMAINING \$250 MILLION OF INTERNATIONAL AID PACKAGE.

1. IBRD STAFF AND USG REP (POATS) JOINTLY BRIEFED EMBASSY OFFICERS OF FRANCE, GERMANY, JAPAN, UK AND NETHERLANDS AT BANK ON EGYPTIAN BALANCE OF PAYMENTS SITUATION AND INTERNATIONAL EMERGENCY AID PLAN. MEETING ARRANGED AT US REQUEST TO SATISFY JAPANESE (AND TO SOME EXTENT OTHER COUNTRIES) NEED FOR INDEPENDENT CERTIFICATION OF EGYPTIAN NEED FOR EMERGENCY AID AND EVIDENCE THAT GOE IS SERIOUSLY WORKING WITH IBRD AND IMF ON MEASURES TO REDUCE FUTURE DEPENDENCE ON AID. IBRD TEAM RECENTLY RETURNED FROM CAIRO PROVIDED DETAILED DATA AND OBSERVATIONS, INCLUDING BANK'S OWN REVISIONS OF GOE BALANCE OF PAYMENTS PROJECTIONS FOR CY-1975.

2. IBRD PROJECTS CY-1975 FOREIGN EXCHANGE DEFICIT PRIOR TO RECENT NON-PROJECT AID COMMITMENTS (SAUDI ARABIA \$600 MILLION, KUWAIT \$500 MILLION, US \$70 MILLION) TOTALLING ABOUT \$1,900 MILLION, COMPOSED OF \$1,200 MILLION IMPORT FINANCING DEFICIT AND \$700 MILLION CASH DEFICIT. THIS PROJECTION ASSUMES EGYPT FULFILLS MINIMUM GOAL OF REDUCING ITS SHORT-TERM DEBTS TO FOREIGN COMMERCIAL BANKS FROM \$2,700 MILLION AT BEGINNING OF CY-1975 TO \$2,300 MILLION AT END OF YEAR. BANK ASSUMES EGYPT WILL APPLY ABOUT \$400 MILLION OF SAUDI-KUWAIT AID TO IMPORT FINANCING AND BALANCE TO MEETING CASH DEFICIT. THUS IMPORT FINANCING GAP REQUIRING EMERGENCY AID FROM NON-ARAB SOURCES IS \$800 MILLION.

3. POATS NOTED THAT BANK'S ANALYSIS IS CONSISTENT WITH USG APPROACHES IN SUPPORT OF EGYPT'S REQUESTS TO IRAN, SAUDI ARABIA, EC COUNTRIES AND JAPAN. IN FACT BANK'S CONFIDENTIAL

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ESTIMATE OF IMPORT FINANCING GAP IS SOMEWHAT HIGHER THAN USG ESTIMATE OF ABOUT \$1 BILLION. LATTER TARGET CAN BE MET ONLY IF EC AND JAPAN COME FORWARD PROMPTLY WITH \$250 MILLION. THREE-QUARTERS ALREADY VIRTUALLY ASSURED BY PLANNED US \$250 MILLION CONTRIBUTION, \$250 MILLION CONDITIONALLY PROMISED BY IRAN, AND \$250 MILLION OUT OF SAUDI \$600 MILLION ATTRIBUTABLE TO IMPORT-FINANCING PACKAGE. ALL KUWAIT AID ATTRIBUTABLE TO FOREIGN DEBT

REPAYMENTS. EC AND JAPANESE AID COMMITMENTS NEEDED IN JULY ORDER TO ASSURE THAT ADMINISTRATIVE AND BANKING PROCESSES CAN BE COMPLETED IN TIME TO PERMIT ITS UTILIZATION IN IMPORT TRANSACTIONS BEFORE END OF YEAR -- WHICH IS DEFINITION OF FINANCING GAP TO BE FILLED. BECAUSE OF LIKELY SLIPPAGE IN PROCESSES AND LACK OF COMPLETE FIT OF TIED AID WITH EGYPT'S NEEDS, SOMEWHAT MORE THAN \$250 MILLION NEEDED FROM EC-JAPAN GROUP.

4. BENJENK FURNISHED ON CONFIDENTIAL BASIS SUMMARY OF EXTENSIVE SET OF UNDERTAKINGS MADE BY PRIME MINISTER SALIM TO IBRD'S MCNAMARA ON MEASURES TO BE TAKEN TO TIGHTEN MANAGEMENT OF FOREIGN EXCHANGE AND RATIONALIZE EGYPTIAN ECONOMY. HE CITED THIS AS EVIDENCE OF BANK'S INTIMATE INVOLVEMENT IN ASSISTING EGYPT MOVE TOWARD GREATER SELF SUPPORT IN FUTURE.

5. MEETING AND RELEASE OF SALIM-MCNAMARA COMMITMENTS SHOULD SATISFY JAPANESE DEMAND FOR IBRD-LED DONOR GROUP APPROACH TO EGYPTIAN AID. BENJENK SAID NEITHER EGYPTIANS NOR MAJOR BILATERAL DONORS HAD SUGGESTED BANK FORM CONSULTATIVE GROUP OR CONSORTIUM AND BANK HAD NOT VOLUNTEERED TO PLAY THIS ROLE BUT IT WOULD MAINTAIN ALMOST CONTINUOUS STAFF CONSULTATION WITH GOE ON ECONOMIC MANAGEMENT AND PLANNED ANOTHER LENDING PROGRAM IN FY-1976 OF ABOUT \$200 MILLION WHICH MAY AGAIN INCLUDE NON-PROJECT LOAN.

6. ADDRESSEE POSTS MAY DRAW UPON FOREGOING BACKGROUND IN FOLLOW-UP DISCUSSIONS ON AID TO EGYPT.

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7. IN EXPLAINING THE SUBSTANCE OF PLANNED U.S. COMMITMENT YOU SHOULD NOTE THAT WE MUST GO TO CONGRESS FOR THAT PORTION OF THE EMERGENCY 1975 CONTRIBUTION WHICH IS TO BE DRAWN FROM FY 1976 AID AND PL-480 ACCOUNTS. THIS IS WHY WE CANNOT MAKE EXPLICIT PUBLIC COMMITMENTS AT THIS TIME AND WHY THIS FIGURE MUST BE CLOSELY HELD.

8. IBRD DATA AND SUMMARY OF GOE COMMITMENTS BEING POUCHED TO EMBASSY CAIRO.

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